

## House Republicans Release Principles For Reform Of Fannie Mae And Freddie Mac

WASHINGTON - House Republicans, led by Financial Services Committee Ranking Member Spencer Bachus, today released a set of principles they believe should be part of immediate legislative efforts to address the future of the Government Sponsored Enterprises (GSEs).

"It is time to deal with bailed out companies, which were at the center of the mortgage market meltdown that caused the financial crisis, and have cost taxpayers hundreds of billions of dollars," Bachus said. "House and Senate Democrats have chosen to essentially ignore the problem as part of financial regulatory reform, and the Administration's strategy is to punt the problem into the future."

The principles call for phasing out the operations of Fannie Mae and Freddie Mac within four years in an effort to restore long-term stability and private capital to the housing finance market.

"Fannie Mae and Freddie Mac were key players at the heart of the economic crisis and housing meltdown, and the principles outlined by House Republicans offer serious reforms we desperately need," said Republican Leader John Boehner. "For years, Republicans warned of the dangers posed by Fannie Mae and Freddie Mac and advocated responsible reforms, but we were blocked by Democratic lawmakers with deep political ties to the worst offenders. It's long past time to reform Fannie and Freddie to help restore long-term stability to our financial and housing markets."

"One of the dirty little secrets of the Obama Administration is its continued failure to reform GSEs," said Republican Whip Eric Cantor. "While the Administration keeps punting the hard decisions, House Republicans are developing common-sense solutions that protect taxpayers and restore a robust housing market. I congratulate Ranking Member Spencer Bachus for his continued focus on real reform."

In September 2008, the Federal Housing Finance Administration (FHFA) exercised authority granted by Congress to place the two enterprises in conservatorship and established a \$200 billion facility to purchase senior preferred stock in the enterprises to backstop their losses. In February 2009, the Obama Administration raised the senior preferred stock purchase commitment to \$400 billion, before announcing on Christmas Eve 2009 that it was removing any limits on the use of Federal funds to cover losses at the enterprises. The federal government has purchased more than \$127 billion of senior preferred stock in the two enterprises thus far, and has explicitly guaranteed \$1.7 trillion of their debt and over \$5 trillion in mortgages they have purchased.

The FHFA, as conservator, has assumed all of the powers of common stockholders. As a result of the government's actions, U.S. taxpayers now own at least 80 percent of the two enterprises and it is unlikely that they will be returned to private shareholders.

"For years we warned about the systemic risk posed by Fannie and Freddie. Unfortunately our calls for reform were largely ignored under the guise of promoting affordable housing," said Rep. Ed Royce. "Today, there are 127 billion reasons to not only reform the two institutions that were at the heart of the U.S. housing bubble; but to legislate them out of existence."

"Fannie Mae and Freddie Mac played a central role in the housing collapse, and now taxpayers have been stuck owning the institutions, eating their losses, and bankrolling trillions in outstanding liabilities," said Rep. Judy Biggert, the Ranking Member of the Oversight and Investigations Subcommittee. "Taxpayers deserve to know where their dollars are going, what risks they are being exposed to, and how these institutions are being managed or mismanaged. Our reforms will impose some common-sense accountability on these intuitions, end the bailouts, and take immediate steps to wind down the immense risks they pose to the long-term stability of our housing market. GSE reform is a critical element of economic recovery and should start now."

As part of the process of winding down the operations of Fannie Mae and Freddie Mac, the Republican principles call for phasing out the elevated conforming loan limits in high-cost areas established by Congress in October 2009, reducing the mortgage portfolio holdings of the two GSEs by 25% a year over four years, and reducing leverage by phasing in capital requirements that are consistent with global standards for large, complex financial institutions.

"I am pleased to join my colleagues on the Financial Services Committee in taking the initial steps toward reforming Government Sponsored Enterprises, said Rep. Shelley Moore Capito, the Ranking Member of the Housing and Community Opportunity Subcommittee. "This Congress has a responsibility to address the future of mortgage security and ensure that taxpayers are not on the hook for funding future bailouts. I look forward to moving ahead on real GSE reform."

The principles also call for creating an Inspector General for the federal agency that regulates Fannie Mae and Freddie Mac, putting the operations of the companies on the federal budget, and limiting the compensation of their employees to that of the highest paid government employees.

"The goals outlined here precisely identify the objectives of any credible GSE reform effort: ending government subsidies and protecting taxpayers from tens of billions of dollars in additional GSE losses," said Rep. Jeb Hensarling, the Ranking Member of the Financial Institutions Subcommittee. "Fannie and Freddie are financial Frankensteins created in a government laboratory that were allowed to abuse their congressionally-granted charters for their own private gain while exposing taxpayers to more than \$5 trillion of risk. It is imperative that we end the GSE bailout now and transition to a sustainable housing finance system free from the GSE duopoly. I commend Ranking Member Bachus for offering a plan to achieve meaningful GSE reform, while the Administration and Democrats in Congress continue to remain silent on how to end what will surely prove to be the mother of all bailouts."

"These principles are a serious commitment to reducing the risk Fannie and Freddie pose to the taxpayer," said Rep. Scott Garrett, the Ranking Member of the Capital Markets, Insurance and Government Sponsored Enterprises Subcommittee. "The Obama Administration has been deliberately obtuse in their efforts to reform these toxic assets, a shocking abdication of responsibility considering the central role the GSEs played in the financial crisis. Under the leadership of Ranking Member Bachus, Financial Services Republicans are dedicated to pursuing GSE reform, in spite of the myopic treatment of Fannie and Freddie by the Democrats."

"We can't afford to wait until next year or the year after that to start working on a plan to wind down Fannie and Freddie; we must start now," said Rep. Randy Neugebauer, the Committee's Vice Ranking Member. "Our economy needs a stable housing finance system that relies on private capital rather than the taxpayers to finance mortgages, but until we have a

plan to get Fannie and Freddie off the taxpayers' dole, that's not going to happen. Our Republican principles provide a framework to begin this effort and protect the taxpayers from even more losses."

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